

## Message Text

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ACTION EA-10

INFO OCT-01 AF-04 ISO-00 EUR-12 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 NSC-05

SS-15 STR-01 CEA-01 AGR-05 SWF-01 PA-01 PRS-01 USIA-06

L-02 H-01 /096 W

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R 220901Z NOV 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 5401

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY KIGALI

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

AMEMBASSY TOKYO

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HONG KONG PASS TREASURY ATTACHE

EO 11652: N/A

TAGS: EAGR EGEN ID

SUBJ: GOI RESUMES DEVELOPMENT INITIATIVES WITH NEW  
AGRICULTURAL POLICY PACKAGE

REF: JAKARTA 12756

1. SUMMARY: AS FIRST MAJOR STEP IN RATHER BOLD  
PROGRAM TO RESTORE RURAL DEVELOPMENT MOMENTUM FOL-  
LOWING PROLONGED HIATUS DURING ITS STRUGGLE WITH  
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INFLATION(REF A), INDOSIAN GOVERNMENT ON

NOVEMBER 19TH ANNOUNCED IMPORTANT PACKAGE OF NEW AGRICULTURAL POLICY MEASURES. MAIN ELEMENTS INCLUDE 40 PERCENT INCREASE IN GOVERNMENT RICE SUPPORT PRICES, 50 PERCENT INCREASE IN FERTILIZER PRICES AND 40 PERCENT INCREASE IN CREDIT PACKAGES TO FINANCE GREATER INPUTS INTO RICE AND OTHER AGRICULTURAL PRODUCTION. PACKAGE DESIGNED TO STIMULATE OUTPUT AND INCREASE EMPLOYMENT WHILE REDUCING SUBSTANTIAL BUDGET DRAIN OF LARGE SUBSIDIES FOR RICE AND FERTILIZER IMPORTS. CHANGES TIMED TO AFFECT FARM PLANS NOW IN PREPARATION FOR MAIN RICE HARVEST OF APRIL MAY 1975. THIS, AND OTHER PARTS OF PROGRAM YET TO COME REPRESENT MAJOR GOI EFFORT TO REACH BROAD RANGE OF POPULATION WITH DEVELOPMENT BENEFITS, IN ORDER TO RESTORE IMAGE OF SUHARTO GOVERNMENT AS FORCE FOR DEVELOPMENT, AND TO ENHANCE ITS FLAGGING POPULARITY. PACKAGE ALSO REPRESENTS GAMBLE THAT GOVERNMENT CAN PRODUCE PRODUCTION RESPONSES AND GREATER RURAL BENEFITS WHILE SIMULTAN-

EOUSLY PROTECTING PRICE STABILITY FOR POLITICALLY VITAL URBAN CONSUMER. END SUMMARY

2. INFORMATION MINISTER MASHURI HELD SPECIAL PRESS CONFERENCE NOVEMBER 19, ASSISTED BY STATE ECONOMICS MINISTER WIDJOJO, TRADE MINISTER PRAWIRO, AGRICULTURE MINISTER THOJIB AND LOGISTICS BUREAU (BULOG) CHIEF GENERAL ARIFIN. MASHURI ANNOUNCED EFFECTIVE NOVEMBER 20: (A) 50 PERCENT INCREASE IN GOVERNMENT FERTILIZER PRICES, AND (B) INCREASE AVERAGING 40 PERCENT IN BIMAS RICE AND RELATED GOVERNMENT SUBSIDIZED CREDIT PROGRAMS DEvised TO STIMULATE AGRICULTURAL PRODUCTION (C) PLANS TO SIMPLIFY FERTILIZER DISTRIBUTION. SAME DAY GOI ANNOUNCED 40 PERCENT INCREASE IN PRICES TO BE PAID BY GOVERNMENT LOGISTICS AGENCY BULOG AND BUUD'S (COOPERATIVES) IN BUYING RICE FROM FARMERS. RICE PRICE INCREASES EFFECTIVE FEBRUARY 1, 1975. PRICE INCREASE FOR GABBAH (UNHULLED RICE) IS RUPIAH 17.5 OVER FORMER BASE OF RUPIAH 42 PER LIMITED OFFICIAL USE

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KILO. WHILE GOVERNMENT GAVE NO FIRUGE FOR NEW FLOOR PRICE FOR MILLED RICE, MISSION EXPECTS THIS WOULD NECESSITATE INCREASE FROM PRESENT RUPIAH 68.5 TO ROUGHLY RP 90-95 PER KILO.

3. RICE BUYING PRICE INCREASE, IF EFFECTIVELY SUPPORTED BY BULOG, SHOULD GO GOOD DISTANCE TO RESTORE RICE PRODUCERS PURCHASING POWER. ASSUMING

NEW MILLED RICE PRICE WILL BE ROUGHLY RP 90  
PER KG, FLOOR PRICE AT MILLED RICE STAGE WILL  
HAVE DOUBLED, FROM RG 45 PER KG IN MAY 1973.  
RETAIL MARKET PRICE IN AST AND CENTRAL JAVA  
URBAN CENTERS WAS RP 50-55 IN MAY 1973 UP  
TO RUPIAH 72-78 IN MAY 1974(FLOOR AT THAT TIME  
RP 68.5) AND CUREENTLY IN RP 73-78 RANGE.  
THIS HIGHER FLOOR PRICE AT THE MILL WILL PRSUMABLY  
RESULT BY MID 1975 IN GRADUAL RISE TO RETIAL RICE  
PRICE NEAT RP 95 PER KG. NEW FLOOR TO FARMER  
SHOULD BRING PRICE INCREASES TO FARMER UP 65-90 PER-  
CENT IN TWO YEARS SINCE MAY 19739 IN TERMS OF  
COST OF LIVING OVER SAME PERIOD, COSTS OF 9 BASIC  
ESSENTIALS IN JAKARTA (INCLUDING RICE) SHOW  
INCREASE OF 33 PERCENT TO DATE, AND PROBABLY  
50 PERCENT BY NEXT MAY. (JAKARTA 65 ITEMS COST OF  
LIVING UP 60 PERCENT TO DATE AND PROBABLY 85 PECENT  
BY NEXT MAY). THUS PROSPECTIVE INCREASES IN  
PRICE TO FARMER SHOULD ROUGHLY COMPENSATE  
FOR COST OF LIVING EROSION OVER SAME PERIOD.  
IT DOES NOT MAKE UP FOR SIGNIFICANT EROSION PRIOR TO  
MAY 1973, BUT STILL SHOULD SUBSTANTIALY IMPROVE  
CURRENT RICE PRODUCTION INCENTIVES.

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HONG KONG PASS TREASURY ATTACHE

4. STRIKING FEATURE OF GOVERNMENT PACKAGE IS  
DECISION TO MAKE BUYING SUPPORT PRICE INCREASES  
EFFECTIVE FEBRAARY 1. NOTABLE ALSO WAS THAT  
GOVERNMENT MADE TO CHAGE IN WHOLESale  
AND RETAIL PRICE CEILINGS OF RICE (LATER PRESENTLY RP  
100/KILO). GOVERNMENT OBVIOUSLY GAMBLES ON BEING ABLE TO HOLD  
RICE PRICES STABLE AND DISCOURAGE SPECULATION UNTIL  
FEBRAARY THROUGH MARKET INJECTIONS OF RESERVE  
RICE STOCKS. GOVERNMENT EMBOLDEN BY TARGETS-  
EVER NATIONAL RICE STOCK, CURRENTLY 950,000  
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TONS COMPARED WITH MORE NORMAL 300-500,000  
TON SIZE. GOVERNMENT ALSO SHIFTED ITS DOMESTIC  
PRICE SUPPORT TO BUY SIGNIFICANT PROPORTION  
OF UNHULLED RICE WHICH STORES LONGER THAN MILLED  
RICE. GOVERNMENT HOPES TO STIMULATE SIGNIFICANT  
PRODUCTION INCREASED AND AT SAME TIME CUT BUDGET COSTS  
OF RICE SUBSIDIES TO CONSUMER BY WHAT WE ESTIMATE  
COULD BE 70-100 MILLION OF ESTIMATED \$400  
MILLION NOW PAID ON RICE IMPORTS.

5. SIMILARLY 50 PERCENT FERTILIZER RICE I  
CREASE

A  
MED AT STEERING RAPID RISE OF GOI FERTILIZER  
SUBSIDY BILL. AT EARLIER WORD FERTILIZER PRICE OF  
\$150 PER TON GOI SUBSIDIZED 44 PCT OF IMPORT  
COSTS, BUT AT CURRENT \$400 PER TON C&F, SUB-  
SIDY COMPONENT NOW 68 PCT. SUBSIDY REDUCTION  
SHOULD SAVE ABOUT \$60 MILLION OF ESTIMATED  
\$300 PLUS MILLION SUBSIDY COST. (TAKEN TOGETHER  
WITH RICE AND SUGAR SUBSIDY REDUCTIONS, NEW PRICING  
POLICIES WOULD SAVE UP TO \$170 MILLION OR ONE-  
SIXTH OF CURRENT ESTIMATED \$1 BILLION SUBSIDY COSTS.  
UREA AND TSP PRICE RISE TO RPS 60 PER KILO VS PRESENT  
40 RPS. SINCE GOI EXPECTS INCREMENTS OF FERTILIZER USE

TO YIELD APPROXIMATELY FOUR TIMES ITS OWN WEIGHT IN  
ADDITIONAL RICE, FERTILIZER COST INCREASE SHOULD  
STILL LEAVE LARGE MARGIN OF BENEFIT TO THE FARMER.  
(GOVERNMENT ALSO INDICATED THAT THIS PRICE INCREASE  
WOULD BE ONLY FIRST OF SEVERAL STAGES IN REDUCING  
FERTILIZER PRICE SUBSIDY).

6. INCREASE IN GOI FARM CREDIT PACKAGES INTENDED  
TO AVOID INCREASING FARMERS CASH NEEDS IN PLANTING  
AND PREHARVEST SEASONS. GOI ANNOUNCED 40 PERCENT  
INCREASE IN BIMAS CREDIT PACKAGE FOR RICE PRODUCTION,  
WITH SOMEWHAT MORE MODEST CREDIT PROGRAM INCREASES  
PER HECTARE FOR OTHER CROPS, EG SOYBEANS,  
PEANUTS, SORGUM AND CASSAVA. GOVERNMENT SET  
ASIDE FOR CREDIT PROGRAMS UP TO RUPIAH 68  
BILLION COMPARED WITH RUPIAH 50 BILLION LAST  
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YEAR.

7. COMMENT: PROGRAM ANNOUNCED NOVEMBER 19  
REPRESENTS BOLDEST POSITIVE ECONOMIC MOVE IN  
TWO YEARS BY GOI. GOVERNMENT GAMBLES THAT IT  
CAN STILL CONTAIN INFLATION, WHILE STIMULATING

AGRICULTURAL PRODUCTION AND RURAL EMPLOYMENT.  
BY BROADENING DISTRIBUTION OF DEVELOPMENT BENEFITS,  
CLEARLY IT HOPES TO BUOY UP ITS FLAGGING POPULARITY  
WITH BOTH URBAN AND RURAL POPULATIONS AT THE SAME  
TIME, WITH AN EYE TO DPR/PRESIDENTIAL ELECTIONS  
IN 1976/78. WEATHER PERMITTING, WE GUESS THIS  
BALANCING ACT HAS BETTER THAN EVER CHANCE OF SUCCESS.  
THIS AGRICULTURAL PACKAGE IS MOST IMPORTANT, BUT  
NOT ONLY ELEMENT OF A BROAD FRONTAL ATTACK ON  
DEVELOPMENT PROBLEMS (SEPTIL FOLLOWS)  
WHICH GOI PLANS TO LAUNCH OVER NEXT SEVERAL  
MONTHS, IN ORDER TO REGAIN RURAL DEVELOPMENT  
MOMENTUM WHICH 1972 DROUGHT AND SUBSEQUENT INFLATION  
HAD SEVERELY DISRUPTED. IT CONTAINS SUBSTANTIAL  
RISK OF RENEWING INFLATION AS ECONOMIC AND  
POLITICAL PROBLEM.

8. MISSION WILL PROVIDE FURTHER DETAIL AND  
EXPECTED IMPACT AS AVAILABLE. TOUSSAINT

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
**Draft Date:** 22 NOV 1974  
**Decaption Date:** 01 JAN 1960  
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**Disposition Approved on Date:**  
**Disposition Authority:** KelleyW0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**Review Transfer Date:**  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GOI RESUMES DEVELOPMENT INITIATIVES WITH NEW AGRICULTURAL POLICY PACKAGE  
**TAGS:** EAGR, EGEN, ID  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005